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SIPDIS

LONDON FOR AF WATCHER PETER LORD

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SUBJECT: MALAWI MCC CONCEPT PAPERS GENERATE PRIVATE SECTOR
INTEREST

REF: A. 08 LILONGWE 551

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[1](#). Summary: Malawi's recently submitted proposals for a potential Millennium Challenge Account (MCA) compact generated considerable private sector interest at a May 7 forum. The forum included a presentation on the concept papers recently submitted by the MCA-Malawi Core Team (MCA-M). Malawi is requesting MCA investments of nearly USD 500 million, focusing on the power, transport, and governance sectors. With funding likely to be much lower than requested, Post faces a significant challenge in managing expectations and potential public diplomacy fallout. End summary.

[2](#). On May 7, the Millennium Challenge Corporation (MCC) and the Corporate Council on Africa co-sponsored a private sector forum to discuss Malawi's potential MCA compact. The event, linked by DVC to MCC headquarters, drew an audience in Lilongwe of over 50 senior private sector representatives. It included presentations by the MCA-M Core Team describing the sector-specific concept papers, and a lively question and answer session involving all participants.

Focus on Power, Transport and Governance

[3](#). Since September, when a national stakeholders conference marked the end of the constraints analysis and initial consultations phase (Ref A), the MCA-M team has been working to develop concept papers for specific projects based on the key development constraints identified. In view of the probable funding levels and the five-year time frame for MCA compact projects, MCA-M decided to focus on the power and transportation sectors. Two concept papers for these sectors were formally submitted to MCC on April 17. MCA-M will also develop a smaller concept paper on governance, which will build on the work done through Malawi's MCC Threshold Country Program (TCP).

[4](#). In the power sector, MCA-M proposes a broad range of activities addressing generation, transmission, distribution and off-grid electrification using renewable energy, as well as institutional capacity-building. The program does not include investments in any new generation capacity, but rather targets efficient utilization of existing capacity and improved generation reliability. Taken as a whole, the proposal seeks to make investment in power generation economically viable, whether investment is undertaken by ESCOM, the current monopoly supplier, or by new independent power producers. Total funding requested is USD 247 million.

[5](#). In the transport sector, MCA-M proposes investments in

rail and road transportation, as well as the strengthening of the administrative and regulatory regime. The rail sector would receive the bulk of the funding, with projects addressing the rehabilitation of the rail infrastructure along the Nacala corridor (northern Mozambique's major port), as well as the acquisition of locomotives and rolling stock. The road projects would upgrade key feeder roads to improve market access for rural populations. Total funding requested is USD 194 million.

¶16. Following on the widely recognized success of Malawi's TCP, MCA-M is also developing a series of governance projects. Much smaller than the infrastructure projects, the governance activities would fund capacity-building in fiscal management and oversight begun by the TCP. Total funding requested is expected to be in the USD 25-35 million range.

Private Sector Ready to Engage, Eager for More Information

¶17. Participation in the forum demonstrated that there is already wide interest from the private sector for involvement with Malawi's compact. Participants included potential partners covering all phases of the compact, project design, feasibility studies, capacity building, project management, and construction. The most engaged included representatives from General Electric, Lockheed-Martin, Portugal-based Mota Engil, Scottish Development International, Malawi's Standard Bank, and the U.S. Overseas Private Investment Corporation (OPIC). Two speakers even expressed interest in working on power generation projects that will benefit from compact projects but are not slated to receive direct MCC funding.

¶18. While there was genuine enthusiasm for Malawi's concept papers, there were also some concerns expressed. Several

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speakers commented on the importance of addressing the regulatory environment in order to increase private sector investment. Others stressed the need for capacity-building. For example, one speaker noted the potential benefits of carbon financing, but added the Malawi Energy Regulatory Authority (MERA) lacks the capacity to take advantage of this resource. For a number of potential partners, a key question was what will be the final size of the projects, and of the compact as a whole.

¶19. In response to the last point, MCC officials noted that, although the budget for 2010 has not yet been approved, the average compact size for sub-Saharan African countries has been about USD 300 million, and that this amount would be a good estimate for what Malawi might get. MCC has requested from Congress funding of USD 1,425 million for 2010, with Jordan, Malawi and the Philippines in line to sign compacts during the year. MCC reps indicated that Malawi might hope to get as much as USD 400 million, but only if this budget is fully funded. Malawi's requested funding totals roughly USD 475 million, so significant cuts to the proposals are likely to be needed.

Comment: Compact on Track, but Expectations are High

¶10. MCA-M has done its homework and gained broad based support for the proposals. MCA-M has made a persuasive argument that investment in the targeted projects will bring tangible improvements in the country's prospects for economic growth. At the same time, the GOM has decided to submit an ambitious request, putting the onus of trimming programs on the MCC. Given local enthusiasm for the projects, cuts will be painful. Funding in the USD 300 million range will represent less than two thirds of Malawi's request and would require the removal of major elements of the proposals. Post fully recognizes MCC funding constraints. However, if final funding levels are substantially below Malawian expectations that MCC is unable to reign in, Post will face a serious

public diplomacy challenge to avoid damage to USG credibility.
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